Hydro Québec

Cue Card 2008-2009

Hydro-Québec generates, transmits and distributes electricity, mainly using renewable energy sources, in particular hydroelectricity. Its transmission and distribution activities are regulated by the Régie de l'énergie du Québec. To meet growing demand, it is continuing to develop hydropower, complemented by wind power purchased from independent producers. In addition, it conducts research and develops new technologies in energy-related fields. It also actively promotes energy efficiency.

Hydro-Québec's sole shareholder is the Québec government, which guarantees most of its borrowings.

Key Statistics[1]

At December 31	(in C$)	2004	2005	2006	2007	2008
Revenue	(millions)	10,341	10,887	11,161	12,330	**12,717**
Expenditure						
Operations	(millions)	2,154	2,245	2,389	2,541	**2,497**
Electricity and fuel purchases	(millions)	1,464	1,496	1,315	1,555	**1,406**
Depreciation and amortization	(millions)	1,862	2,023	2,007	1,991	**2,336**
Taxes	(millions)	610	597	534	553	**541**
Water-power royalties[2]	(millions)				267	**552**
Regulatory deferrals	(millions)	–	(11)	(93)	29	**(72)**
Total	(millions)	6,090	6,350	6,152	6,936	**7,260**
Operating income	(millions)	4,251	4,537	5,009	5,394	**5,457**
Financial expenses	(millions)	2,083	2,186	2,212	2,512	**2,445**
Income from continuing operations	(millions)	2,168	2,351	2,797	2,882	**3,012**
Income (loss) from discontinued operations	(millions)	267	(99)	944	25	**129**
Net income	(millions)	2,435	2,252	3,741	2,907	**3,141**
Investments in property, plant and equipment and intangible assets	(millions)	3,071	3,293	3,348	3,464	**3,756**
Costs related to Energy Efficiency Plan	(millions)	41	91	149	172	**236**
Total investments	(millions)	3,112	3,384	3,497	3,636	**3,992**
Total assets	(billions)	58.1	60.4	63.3	64.9	**66.8**
Long-term debt, including current portion and perpetual debt	(billions)	33.4	33.0	34.4	34.5	**36.4**
Equity	(billions)	16.2	17.4	18.8	20.9	**22.1**
Average rate increase from January 1 to December 31	(%)	4.1	1.3	4.3	2.8	**2.7**
Inflation rate	(%)	1.8	2.2	2.0	2.2	**2.3**
Installed capacity[3]	(MW)	33,892	34,571	35,315	35,647	**36,429**
Customer accounts	(thousands)	3,701	3,753	3,815	3,869	**3,913**
Employees	(thousands)	21.9	22.1	22.6	23.1	**22.9**
Financial Ratios						
Interest coverage		1.79	2.00	2.06	2.13	**2.12**
Capitalization	(%)	32.7	34.1	36.1	37.5	**37.7**
Self-financing	(%)	65.9	51.2	69.9	61.9	**44.9**
Return on equity	(%)	15.4	13.3	20.6	15.0	**15.4**
Profit margin from continuing operations	(%)	21.0	21.6	25.1	23.4	**23.7**

(1) Certain comparative data have been reclassified to reflect the presentation adopted in the current year.

(2) As of 2007, Hydro-Québec has been required to pay water-power royalties under the terms of the Watercourses Act. For 2007, a transition year, the half-rate rule applied.

(3) Hydro-Québec also has access to most of the output from Churchill Falls generating station (5,428 MW) and purchases all the output from eight privately owned wind farms with a total installed capacity of 530 MW. In addition, 1,277 MW are available under agreements with independent suppliers.

Hydro-Québec: A quality investment

Security

Explicit guarantee by the Québec government on the major portion of Hydro-Québec's debt (debentures, commercial paper, medium-term notes)

Characteristics of the debt at December 31, 2008

Average term: 19.1 years
Fixed rate: 91.1%; Variable rate: 8.9%
Breakdown by repayment currency: C$90.5%; US$ 9.5%

Strong credit ratings (December 31, 2008)

Long-term debt: Moody's Aa2; Standard & Poor's A+; Fitch Ratings AA-; DBRS A (high)

Commercial paper: Moody's P-1; Standard & Poor's A-1+; Fitch Ratings F1+; DBRS R-1 (middle)

Competitive Rates

Index of Electricity Prices

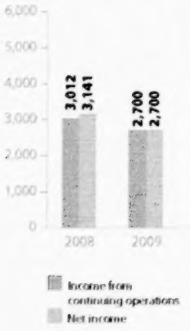
Sources: Hydro Québec, *Comparison of Electricity Prices in Major North American Cities, April 1, 2008*

Highlights 2008-2009

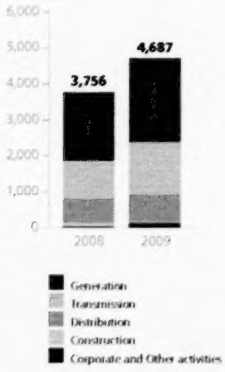
- Commissioning of the last two units at the 385-MW Péribonka generating station.
- Construction continued on the Eastmain-1-A/Sarcelle/Rupert development. This major $5 billion project will add 918 MW in capacity and 8.7 TWh in output to our generating fleet.
- The Romaine complex, the next big hydropower project, completed the public-hearing phase. Construction is scheduled to begin in the second quarter of 2009, and commissioning will take place in stages from 2014 to 2020. With investments of $6.5 billion, four generating stations will be built for an installed capacity of 1,550 MW and additional output of 8.0 TWh.
- Construction continued on the 1,250-MW interconnection with Ontario. The first phase of this $654 million project will be commissioned in 2009.
- Investment program of $1.9 billion to refurbish Gentilly-2 (675 MW) nuclear generating station at Bécancour in order to extend its useful life until 2040. The bulk of the work will take place in 2011 and 2012.

2009 Financial Outlook

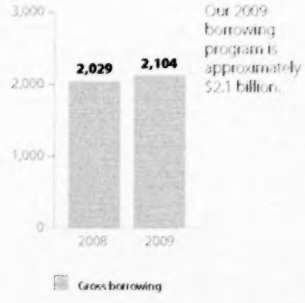
Income
in millions of C$



Investments in property, plant and equipment and intangible assets
in millions of C$



Financing needs
in millions of C$



For more information, please consult our Web site:
www.hydroquebec.com/financing
You can also contact the Investor Relations team at the following e-mail address:
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